

Message Text

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SUBJECT: JULY 10 FINANCE COUNCIL MEETING -- SUPPLEMENTARY DETAILS
AND EC COMMISSION AND PERM DEL REACTIONS

REFS: A. EC BRUSSELS 6426

B. EC BRUSSELS 6332

C. EC BRUSSELS 6273

D. EC BRUSSELS 6135

E. EC-A-89, MARCH 7, 1975

F. LUXEMBOURG 543

1. SUMMARY: THE FINANCE MINISTERS AGREED AT LUNCH ON JULY 10 TO ORGANIZE A SERIES OF EC MEETINGS TO MONITOR THE CURRENT ECONOMIC SITUATION AND TO SEEK A RESOLUTION OF THEIR IMPASSE ON IMF REFORM ISSUES. THE MINISTERS MAY MEET INFORMALLY IN ITALY NEXT MONTH TO DISCUSS IMF ISSUES. FRANCE ALSO AGREED TO CONSULT ON ITS PROPOSED SUMMIT TO DISCUSS INTERNATIONAL MONETARY REFORM. END SUMMARY.

2. THIS MESSAGE SUPPLEMENTS OUR REPORT OF THE JULY 10 EC FINANCE COUNCIL (REF B). IT SUMMARIZES THE HIGHLIGHTS

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OF THE FINANCE MINISTERS' DISCUSSION AT THEIR

RESTRICTED LUNCH AND INCLUDES REACTIONS OF COMMISSION
AND PERM DEL OFFICIALS TO THE COUNCIL MEETING.

3. ECONOMIC POLICY COORDINATION: AT THEIR JULY 10 RESTRICTED LUNCHEON THE FINANCE MINISTERS AGREED TO MONITOR CLOSELY THE CURRENT ECONOMIC SITUATION IN ORDER TO BE READY TO TAKE PROMPT ACTION IN SEPTEMBER SHOULD CONDITIONS WARRANT IT. THE EC ECONOMIC POLICY COORDINATING COMMITTEE WILL MEET ON JULY 18 AND AUGUST 12 AND 28 TO REVIEW DEVELOPMENTS AND CONSIDER NEW EC ECONOMIC GUIDELINES. THE COMMISSION PLANS TO DEVELOP A SERIES OF EXPANSIONARY MEASURES THAT COULD BE PROPOSED TO THE FINANCE COUNCIL ON SEPTEMBER 22 SHOULD THE CURRENT SITUATION CONTINUE TO DETERIORATE. PERM DEL SOURCES QUESTION THE FEASIBILITY OF SUCH PROPOSALS BECAUSE EACH MEMBER STATE IS LIKELY TO SUPPORT THOSE MEASURES WHICH BEST SUITS ITS INDIVIDUAL NEEDS. APEL OF THE FRG SAID THAT THE EC GUIDELINES SHOULD BE COORDINATED SO THAT SURPLUS COUNTRIES' EXPANSIONARY MEASURES ARE COUNTER-BALANCED BY CONTINUED RESTRAINT ON THE PART OF DEFICIT COUNTRIES.

4. IMF ISSUES: FOURCADE OF FRANCE EMPHASIZED THAT THE RETURN TO STABLE EXCHANGE RATES WAS THE GOF'S PRIORITY CONCERN. THIS CONCERN WAS LINKED TO ESTABLISHING A COMMUNITY TARGET RATE AGAINST THE DOLLAR. APEL SAID THAT THERE MUST FIRST BE CONVERGENCE OF IMF MEMBER'S ECONOMIC POLICIES BEFORE THERE COULD BE A RETURN TO A STABLE EXCHANGE RATE SYSTEM. APEL ADDED THAT THE DIFFERENCES IN POINTS OF VIEW COULD CREATE A SERIOUS CLASH WITHIN THE EC. ITALY THEN PROPOSED THAT THE FINANCE MINISTERS MEET AGAIN INFORMALLY IN ITALY BEFORE THE INTERIM COMMITTEE TO SEEK A COMPROMISE. MOST MINISTERS AGREED IN PRINCIPLE BUT FIXED NO DATE FOR THE MEETING.

5. FRANCE AGREED TO SUBMIT IN ADVANCE OF THE AUGUST 11 MONETARY COMMITTEE MEETING ITS PROPOSALS FOR AN EXCHANGE RATE SYSTEM. COMMISSION OFFICIALS UNDERSTAND THAT THE GOF HAS IN MIND PROPOSING A FIXED LIMITED OFFICIAL USE

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TIME DURING WHICH AN IMF MEMBER MAY PROPOSE A PAR VALUE. THE FRENCH MAY ALSO PROPOSE GRADUALLY RESTRICTING THE FREEDOM OF MEMBERS TO FLOAT TEMPORARILY OVER A SIX YEAR PERIOD. THIS PERIOD WOULD BE DIVIDED INTO THREE TWO-YEAR STAGES, EACH OF WHICH WOULD BE MORE RIGOROUS THAN THE PRECEDING ONE, I.E., SEQUENTIAL USE OF THE ALTERNATIVES IN PARA 7B OF REF D: A) IN THE FIRST TWO YEARS A MEMBER MUST JUSTIFY ITS

REQUEST TO RESUME TEMPORARY FLOATING BUT THE IMF
WOULD GIVE IT THE BENEFIT OF DOUBT; B) IN THE
SECOND TWO YEARS, BEFORE GRANTING AUTHORIZATION TOP
FLOAT, THE IMF MAY ASK THE MEMBER TO RECONSIDER
WITHIN A CERTAIN TIME PERIOD BUT THE MEMBER MAY
CONFIRM ITS INTENTION TO FLOAT; AND FINALLY C)
IN THE FINAL TWO YEARS, IMF AUTHORIZATION WILL
BE GRANTED ON A TEMPORARY BASIS AND MAY BE
REVOKE AT ANY TIME. (IT IS NOT CLEAR WHAT
THE FRENCH WOULD PROPOSE FOR SUBSEQUENT PERIODS.)

6. COMMISSION OFFICIALS DO NOT BELIEVE SUCH A PROPOSAL
WOULD BE ACCEPTABLE BECAUSE IT WOULD GIVE THE EC
LITTLE FLEXIBILITY IN THE INTERIM COMMITTEE
NEGOTIATIONS AND MOST OTHER MEMBER STATES WOULD
PREFER A FLEXIBLE FORMULA. ITALY, HOWEVER, MAY GO
ALONG WITH FRANCE ON THIS ISSUE IF IN TURN THE GOF
SUPPORTS GOI EFFORTS TO GAIN FREEDOM TO SELL GOLD
IN THE MARKET.

7. FRENCH MONETARY CONFERENCE: FOURCADE CONFIRMED
AT LUNCH THAT THE GOF HAD PROPOSED A SUMMIT MEETING
OF MAJOR INDUSTRIALIZED COUNTRIES TO CONSIDER
INTERNATIONAL MONETARY ISSUES. AS INDICATED IN REF A,
GISCARD WILL CONSULT WITH THE OTHER HEADS OF
GOVERNMENTS AT THE EUROPEAN COUNCIL MEETING. HE
PARTICULARLY WANTS THEIR VIEWS ON HOW MANY AND WHICH
COUNTRIES SHOULD BE INVITED.

8. EURATOM: THE FINANCE COUNCIL BRIEFLY CONSIDERED A
COMMISSION PROPOSAL TO AUTHORIZE EURATOM TO BORROW
ON THE INTERNATIONAL CAPITAL MARKETS TO FINANCE THE
CONSTRUCTION OF NUCLEAR POWER STATIONS (SEE REF E).
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THE MINISTERS COULD NOT AGREE ON HOW SUCH BORROWINGS
SHOULD BE GUARANTEED AND HOW THE FINANCING SHOULD BE
ADMINISTERED AND REFERRED THE PROPOSAL BACK TO THE
EC PERM REPS. PERM DEL SOURCES BELIEVE THAT THE
COUNCIL WILL EVENTUALLY AGREE TO THIS PROPOSAL BUT
FOR A SMALLER AMOUNT THAN THE \$500 MILLION EACH
YEAR PROPOSED BY THE COMMISSION.

9. EUROPEAN INVESTMENT BANK (EIB): THE COUNCIL
AGREED TO GRANT THE EIB BOARD OF GOVERNORS AUTHORITY
TO DECIDE ON THE UNIT OF ACCOUNT WHICH THE BANK WILL
USE. THIS DECISION MUST BE RATIFIED BY NATIONAL
PARLIAMENTS. THE EIB'S CURRENT U.A. DOES NOT CORRESPOND
TO CURRENT FOREIGN EXCHANGE RATES.

10. COMMENT: THE EC DEBATE OVER INTERNATIONAL MONETARY REFORM IS LIKE THE QUESTION OF WHICH COMES FIRST, THE CHICKEN OR THE EGG. MOST MEMBER STATES ARGUE THAT IT IS UNREALISTIC TO RETURN TO FIXED PARITIES UNTIL KEY COUNTRIES CONVERGE THEIR ECONOMIC POLICIES AND ECONOMIC CONDITIONS BECOME MORE STABLE. FRANCE MAINTAINS, ON THE OTHER HAND, THAT FLOATING RATES HAVE LED TO THE CURRENT ECONOMIC MALAISE AND EXCHANGE RATES MUST AGAIN BE STABILIZED BEFORE THERE CAN BE A RETURN TO ECONOMIC PROSPERITY. THE CURRENT DEBATE IS BECOMING BITTER AND IS LIKELY TO HOLD UP PROGRESS ON THE REFORM ISSUES. AS ONE FRG OFFICIAL HERE PUTS IT "EIGHT OF THE MEMBER STATES ARE ISOLATED ON THIS ISSUE." END COMMENT. GREENWALD

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